HSBC Purchasing Managers' Index™ Press Release

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HSBC Taiwan Manufacturing PMI™

Output contracts at the fastest pace since January

Summary

The HSBC Taiwan Purchasing Managers' IndexTM (PMITM) is a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector. PMI readings above 50.0 signal an improvement in business conditions, while readings below 50.0 signal deterioration. The PMI posted 47.5 in July, down from 49.2 in the previous month and pointing to the second successive deterioration in the health of the manufacturing sector.

Firms signalled that demand from US, European and Chinese markets weakened. Moreover, domestic demand was also reported to be lower than that seen during June. The pace of contraction in both total new orders and new export orders was the fastest since December 2011.

Outstanding orders fell for the second successive month in July at manufacturers in Taiwan. Panellists signalled that the volume of work-in-hand (but not yet completed) fell in line with weaker inflow of new business. Moreover, average lead times shortened as demand for inputs decreased. However, the rate of shortening was only slight and the slowest in the current four-month sequence of improvement in vendor performance.

July data signalled a reduction in workforces at manufacturing firms in Taiwan. Although marginal, the pace of contraction was the fastest in the past 37 months.

Factory gate prices fell substantially in the Taiwanese manufacturing sector during the latest month. According to respondents, output prices decreased in line with a sharp drop in input prices. Additionally, it was suggested that the current economic slowdown led firms to reduce prices as competition increased.

Input prices fell in July, and at the fastest pace since January 2009. Anecdotal evidence suggested that copper and petroleum prices dropped. Moreover, firms cited that supply was greater than demand.

Stocks of finished goods declined at Taiwanese manufacturing firms amid reports of falling production. Although solid, the rate of depletion was the quickest since November 2011.

Meanwhile, pre-production inventories decreased for the first time in six months. Anecdotal evidence suggested that stocks of purchases were intentionally depleted as the number of orders decreased.

Comment

Commenting on the Taiwan Manufacturing PMI™ survey, Donna Kwok, Economist at HSBC in Asia said:

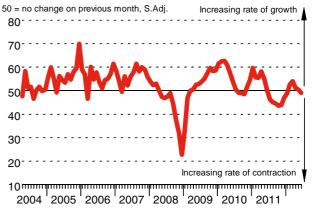
"Taiwan's slow-down remains modest compared to the worst of 2008-2009, but clouds are gathering on the horizon. The inventory build-up for a number of key product launches which has underpinned manufacturing activity since Q1 is coming to an end, but the pick up in final demand that's needed to keep things going is nowhere in sight. With hiring activity slowing, domestic demand will unlikely fill the void left by US, European and Chinese consumers. That's unless Beijing's recent loosening measures start to feed more rapidly through to Mainland demand, or Taipei delivers more significant policy support soon."

Key points

- Order book volumes decreased substantially during July
- Workforces contracted at the fastest pace since June 2009
- Input prices fell steeply in the Taiwanese manufacturing sector

Historical Overview

HSBC Taiwan Manufacturing PMI



Sources: Markit, HSBC.





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Notes to Editors:

The HSBC Taiwan Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 300 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Taiwanese GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' IndexTM (PMITM)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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